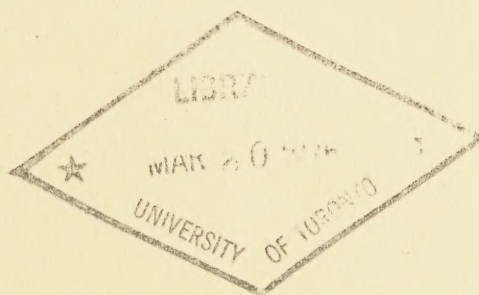


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TRADE PATTERNS IN CANADA AND ONTARIO
ONTARIO BACKGROUND PAPER

15TH ANNUAL
PREMIERS' CONFERENCE
SEPTEMBER 12-13 1974



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TRADE PATTERNS IN CANADA AND ONTARIO

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15th Annual
Premiers' Conference
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Office of Economic Policy
Ministry of Treasury, Economics
and Intergovernmental Affairs



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INTRODUCTION & SUMMARY

Canada is one of the world's major trading nations. It is appropriate, from a provincial point of view, to monitor closely international trade patterns because of their potential influence on provincial economic programs and policies. The purpose of this paper is to provide a general review of the structure of Canadian trade, highlighting those aspects which are significant for economic development policy.

The paper is organized into three sections. Section I provides a detailed analysis of recent trade data on both the national and provincial levels. The data are organized to highlight the relationship of trade patterns to general economic objectives. Factors, such as the amount of processing involved in the export and import commodity mix and the degree of export diversification, are emphasized.

A number of changes have recently affected the international environment. Section II attempts to assess the effects of certain key developments on the national and provincial trading positions. Particular attention is focused on the realignment of foreign exchange rates, the international liquidity situation and the effects of possible economic slowdown in the United States.

The major trading nations will soon be entering multi-lateral tariff and trade negotiations. It is expected that provincial governments, in line with their own economic concerns, will make major contributions to the Canadian position on the GATT and other commercial policy negotiations. Section III provides an overview of the current Canadian tariff structure, a discussion of non-tariff barriers, and a status report on the GATT negotiations.

The highlights of the three sections are:

Foreign Trade Patterns

- . Relatively high reliance on trade is coupled with the dominant position of the United States. The significance of this dependence is heightened by the magnitude of auto exports.
- . Crude and raw materials are forming increasingly larger proportions of the total Canadian export mix. This trend implies a relative lessening of the degree of processing involved in the total export sector.
- . The significance of Japan as a market for Canadian exports has increased substantially. A decline in British and Commonwealth influence has accompanied the Japanese rise.
- . Alberta and British Columbia have increased their share of the total Canadian export market mainly by expanding shipments of natural resources.

International Trends

- . Recent realignments of foreign exchange rates have generally pushed the value of the Canadian dollar upward in relation to the currency values of the country's major trading partners. The immediate consequences of this adjustment have tended to encourage a higher proportion of crude and unprocessed materials in the export mix.

- . A possible recession in the U.S. economy raises the prospect of a future softening in the demand for Canadian exports. This could weaken the demand for manufactured exports, such as automobiles.
- . A higher degree of uncertainty in world trading arrangements poses a broad set of future problems and challenges for the Canadian economy.

Canadian Tariff Structure

- . A striking feature of the Canadian tariff structure is the number of imports which are not subject to duties.
- . The tariffs which Canada does impose are relatively high compared to the levels maintained by the major trading partners.
- . Like tariffs of other major trading nations, high tariffs tend to be concentrated on semi-fabricated and manufactured products.
- . Canadian non-tariff barriers are generally not as widespread as the policies pursued by other countries.
- . The present uncertainty in the international economic environment may result in discussions within GATT on security of supply of essential materials and non-tariff barriers.

1. FOREIGN TRADE PATTERNS

In 1973, Canada was the world's sixth largest exporter and seventh largest importer in value terms. However, Canada relies relatively more on foreign trade for its economic well-being than some of its major trading partners. This is highlighted in Table 1.

| EXPORTS (per cent of GNP) | | | | Table 1 |
|---|------|------|------|---------|
| | 1970 | 1971 | 1972 | 1973 |
| Canada | 19.7 | 19.1 | 19.4 | 21.2 |
| United States | 4.4 | 4.2 | 4.3 | 5.5 |
| United Kingdom | 18.8 | 21.4 | 18.1 | 20.1 |
| Germany | 18.3 | 17.9 | 17.9 | 19.3 |
| Japan | 9.8 | 10.6 | 9.7 | 8.8 |
| France | 18.0 | 19.6 | 21.4 | N/A |
| Australia | 13.7 | 13.3 | 14.2 | 14.9 |
| Sweden | 22.7 | 24.8 | 26.4 | 32.6 |
| Source: Organization for Economic Cooperation and Development | | | | |

Canada has had, consistently, one of the highest trading ratios among industrial nations. Over the past four years the level of exports has been about 20 per cent of GNP, a level four times higher than that of the United States. Ontario's 1973 exports were equivalent to almost 23 per cent of Gross Provincial Product.

The Export Sector

The magnitude of trade with the United States and the increasing significance of Japan as a trading partner are key factors in the structure of the export sector. Table 2 displays the value of Canadian domestic exports shipped to each of the major trading partners and the relative significance of each export market. Table 3 provides similar information for Ontario.

Over the last five years, the United States has purchased over two-thirds of total Canadian exports. The role of the U.S. as a major customer is more pronounced in Ontario, representing 81.2 per cent of 1973 exports. The relative importance of the U.S. market, coupled with the high Canadian export to GNP ratio, underlines the strong interrelationship between the U.S. and Canadian economies.

Among the other trading partners, several trends emerge. The greatest rate of export expansion was registered with Japan. With an 87 per cent increase in 1972-73, Canadian exports to

Japan rose at an annual rate of 30.1 per cent over the 1969-73 period. The 1973 comparisons reveal that Japan has replaced the United Kingdom as Canada's second most significant market, consuming 7.3 per cent of total domestic exports. Ontario exports to Japan, though, have been limited, accounting for 1.1 per cent of the province's 1973 exports.

TOTAL CANADIAN* EXPORTS TO PRINCIPAL TRADING AREAS (\$ million)

Table 2

| | United States | United Kingdom | Japan | EEC** | Common-wealth*** | Total |
|------|---------------|----------------|-------|-------|------------------|--------|
| 1969 | 10,614 | 1,108 | 626 | 855 | 614 | 14,926 |
| 1970 | 11,007 | 1,485 | 813 | 1,204 | 777 | 16,910 |
| 1971 | 11,683 | 1,380 | 829 | 1,094 | 601 | 17,396 |
| 1972 | 13,540 | 1,343 | 959 | 1,116 | 563 | 19,589 |
| 1973 | 16,607 | 1,572 | 1,793 | 1,498 | 767 | 24,644 |

Per Cent of Total Exports to Each Area

| | | | | | | |
|------|------|-----|-----|-----|-----|-------|
| 1969 | 71.1 | 7.4 | 4.2 | 5.7 | 4.1 | 100.0 |
| 1970 | 65.1 | 8.8 | 4.8 | 7.1 | 4.6 | 100.0 |
| 1971 | 67.2 | 7.9 | 4.8 | 6.3 | 3.5 | 100.0 |
| 1972 | 69.1 | 6.9 | 4.9 | 5.7 | 2.9 | 100.0 |
| 1973 | 67.4 | 6.4 | 7.3 | 6.1 | 3.1 | 100.0 |

Annual Growth Rate in Per Cent

| | | | | | | |
|---------------|------|------|------|------|------|------|
| 1973/ 1969 | 11.8 | 9.1 | 30.1 | 15.0 | 5.7 | 13.4 |
| 1973/ 1972 | 22.7 | 17.1 | 87.0 | 34.2 | 36.2 | 25.8 |

Source: Statistics Canada. All tables are in current dollars unless otherwise specified.

Notes: * Excludes re-export category
 ** Excludes United Kingdom, Denmark and Ireland
 *** Excludes United Kingdom.

ONTARIO TOTAL EXPORTS TO MAJOR TRADING
PARTNERS (\$ million)

Table 3

| | United States | United Kingdom | Japan | EEC* | Others | Total |
|--|------------------|-------------------|-------|--------|--------|----------|
| 1969 | 5,606.3 | 379.2 | 52.9 | N/A | N/A | 6,814.9 |
| 1970 | 5,855.3 | 499.4 | 71.3 | 231.8 | 869.5 | 7,527.3 |
| 1971 | 6,478.5 | 516.9 | 68.7 | 221.5 | 808.7 | 8,094.3 |
| 1972 | 7,420.1 | 518.0 | 70.7 | 217.7 | 833.4 | 9,059.9 |
| 1973 | 8,876.7 | 581.9 | 118.1 | 362.5 | 990.5 | 10,929.7 |
| <u>Per Cent of Total Exports to Area</u> | | | | | | |
| 1969 | 82.3 | 5.6 | 0.8 | N/A | N/A | 100.0 |
| 1970 | 77.8 | 6.6 | 0.9 | 3.1 | 11.6 | 100.0 |
| 1971 | 80.0 | 6.4 | 0.8 | 2.7 | 10.0 | 100.0 |
| 1972 | 81.9 | 5.7 | 0.8 | 2.4 | 9.2 | 100.0 |
| 1973 | 81.2 | 5.3 | 1.1 | 3.3 | 9.1 | 100.0 |
| <u>Annual Growth Rate in Per Cent</u> | | | | | | |
| 1973/ 1969 | 12.2 | 11.3 | 22.2 | 16.1** | 4.4** | 12.5 |
| 1973/ 1972 | 19.6 | 12.3 | 67.0 | 66.5 | 18.9 | 20.6 |

Source: Statistics Canada

Notes: * Excludes the United Kingdom, Denmark and Ireland.

** EEC and Others growth rate is for 1973/70.

Degree of processing has often been cited as a central issue in promoting the balanced long term growth of the Canadian economy; i.e., highly processed goods offer greater long term economic growth and employment potential than does the export of raw and crude materials. Accordingly, the next table presents exports on an aggregate commodity basis, indicating the degree of processing involved in the total export mix.

COMPOSITION OF CANADIAN EXPORTS*
(\$ million)

Table 4

| | Crude Materials | Food, Feed, Beverages, Tobacco | Fabricated Materials | End Products | Total Exports |
|--|--------------------|--------------------------------------|-------------------------|-----------------|------------------|
| 1969 | 2,523 | 1,431 | 5,240 | 5,692 | 14,926 |
| 1970 | 3,146 | 1,832 | 5,946 | 5,951 | 16,910 |
| 1971 | 3,331 | 2,045 | 5,797 | 6,193 | 17,397 |
| 1972 | 3,638 | 2,261 | 6,562 | 7,086 | 19,589 |
| 1973 | 5,152 | 2,999 | 8,187 | 8,260 | 24,644 |
| <u>Per Cent of Domestic Export Total</u> | | | | | |
| 1969 | 16.9 | 9.6 | 35.1 | 38.1 | 100.0 |
| 1970 | 18.6 | 10.8 | 35.2 | 35.2 | 100.0 |
| 1971 | 19.1 | 11.8 | 33.3 | 35.6 | 100.0 |
| 1972 | 18.6 | 11.5 | 33.5 | 36.2 | 100.0 |
| 1973 | 20.9 | 12.2 | 33.2 | 33.5 | 100.0 |
| <u>Annual Growth in Per Cent</u> | | | | | |
| 1973/ 1969 | 19.5 | 20.3 | 11.8 | 9.8 | 13.4 |
| 1973/ 1972 | 41.6 | 32.6 | 24.8 | 16.6 | 25.8 |

Source: Statistics Canada

Note: * Excludes re-export category. Special transactions not shown separately.

Data for 1973 reveal that end products (33.5%) and fabricated materials (33.2%) form the largest components in the domestic export mix. These categories represent the exports with the highest degree of processing. However, while both categories remain the largest, they are declining slightly in significance. The 1969-73 annual growth rates of crude material exports (19.5%) and the Food-Feed-Beverage-Tobacco category (20.3%), both of which reflect a low level of domestic processing, have approximately twice the average

annual growth rates of end products (9.8%) and fabricated materials (11.8%). Crude materials, which represented 16.9 per cent of Canadian exports in 1969, now form 20.9 per cent of the export mix. This trend was particularly strong in the 1972-73 period, as the value of crude material exports increased by 41.6 per cent. It reflected increasing demand by the U.S. and Japan for natural resources.

Rapid rates of worldwide inflation create a bias in the export value figures. The 1972-73 period was generally marked by higher price increases for raw versus manufactured materials. This differential accounts for a portion of the export mix shift toward a greater percentage of crude and unprocessed materials. However, inflationary factors alone do not explain the magnitude or long term nature of aggregate commodity trends.

It is impossible to assess fully the growth implications of realignments in the commodity export mix within the scope of this paper. The trend toward higher proportions of crude materials may well be the proper response to competitive conditions. However, the fact that the trend runs counter to the general objective of increasing the degree of processing in Canadian exports cannot be ignored. The trend appears to be continuing, especially in light of the increased significance of the Japanese export market. The long term growth implications of such developments suggest a need for further investigation.

Another facet of the export structure should be highlighted. As discussed earlier, the end product category represents about one-third of the Canadian export mix. Table 5 shows that the auto industry accounts for almost two-thirds of this end product category. In 1973, motor vehicles and parts accounted for 64.8 per cent of end product exports and 21.2 per cent of total Canadian exports. The figures can be interpreted as one measure of the success and benefits of the Canadian-U.S. Auto Pact. However, they also display the dependence of the Canadian export sector on a single industry.

CANADIAN EXPORTS OF MOTOR VEHICLES
AND PARTS (\$ million)

Table 5

| | Total Exports* | End Products | Motor Vehicles and Parts |
|----------------|------------------------------|---|--|
| 1969 | 14,925.8 | 5,692.4 | 3,505.4 |
| 1970 | 16,910.0 | 5,951.1 | 3,618.2 |
| 1971 | 17,820.1 | 6,193.2 | 4,338.3 |
| 1972 | 20,064.2 | 7,086.1 | 4,834.1 |
| 1973 | 25,207.6 | 8,259.2 | 5,350.3 |
| RATIOS IN % | End Product Total Exports | Motor Vehicles and Parts End Products | Motor Vehicles and Parts Total Exports |
| 1969 | 38.1 | 61.6 | 23.5 |
| 1970 | 35.2 | 60.8 | 21.4 |
| 1971 | 34.8 | 70.0 | 24.3 |
| 1972 | 35.3 | 68.2 | 24.1 |
| 1973 | 32.8 | 64.8 | 21.2 |

Source: Statistics Canada

Note: * Includes re-export category

The Import Sector

Data on Canadian imports are provided in Tables 6 and 7.

Table 6 shows that imports from Japan and the EEC have grown somewhat faster than imports from other areas. However, the most predominant characteristic of the import sector appears to be relative stability. As Table 7 indicates, the end product category represents almost two-thirds of Canadian imports. This share of the total mix has remained relatively constant during the last five years, registering 63.5 per cent in 1973. The only long term decline in shares was recorded in fabricated materials which accounted for 18.4 per cent of imports in 1973 (down from 20.6 per cent in 1969).

TOTAL VALUE OF IMPORTS FROM PRINCIPAL
TRADING AREAS (\$ million)

Table 6

| | United States | United Kingdom | Japan | EEC* | Common- wealth** | Total |
|---|------------------|-------------------|-------|-------|---------------------|--------|
| 1969 | 10,243 | 791 | 496 | 787 | 499 | 14,130 |
| 1970 | 9,917 | 738 | 582 | 805 | 555 | 13,952 |
| 1971 | 10,951 | 837 | 802 | 935 | 547 | 15,617 |
| 1972 | 12,877 | 949 | 1,071 | 1,149 | 666 | 18,668 |
| 1973 | 16,497 | 1,005 | 1,018 | 1,393 | 793 | 23,317 |
| <u>Per Cent of Total Imports from Each Area</u> | | | | | | |
| 1969 | 72.5 | 5.6 | 3.5 | 5.6 | 3.5 | 100.0 |
| 1970 | 71.1 | 5.3 | 4.2 | 5.8 | 4.0 | 100.0 |
| 1971 | 70.1 | 5.4 | 5.1 | 6.0 | 3.5 | 100.0 |
| 1972 | 69.0 | 5.1 | 5.7 | 6.2 | 3.6 | 100.0 |
| 1973 | 70.8 | 4.3 | 4.3 | 6.0 | 3.4 | 100.0 |
| <u>Annual Growth Rate in Per Cent</u> | | | | | | |
| 1973/ 1969 | 12.7 | 6.2 | 19.7 | 15.3 | 12.3 | 13.3 |
| 1973/ 1972 | 28.1 | 5.9 | -4.9 | 21.2 | 19.1 | 24.9 |

Source: Statistics Canada

Notes: * Excludes United Kingdom, Denmark and Ireland

** Excludes United Kingdom

VALUE OF IMPORTS FROM ALL COUNTRIES
(\$ million)

Table 7

| | Crude Materials | Food, Feed, Beverages, Tobacco | Fabricated Materials | End Products | Total* Exports |
|---------------------------------------|--------------------|--------------------------------------|-------------------------|-----------------|-------------------|
| 1969 | 1,104 | 1,044 | 2,905 | 8,885 | 14,130 |
| 1970 | 1,202 | 1,085 | 2,885 | 8,618 | 13,952 |
| 1971 | 1,361 | 1,118 | 3,140 | 9,831 | 15,617 |
| 1972 | 1,584 | 1,356 | 3,579 | 11,946 | 18,668 |
| 1973 | 2,148 | 1,844 | 4,280 | 14,798 | 23,317 |
| <u>Per Cent of Import Total</u> | | | | | |
| 1969 | 7.8 | 7.4 | 20.6 | 62.9 | 100.0 |
| 1970 | 8.6 | 7.8 | 20.7 | 61.8 | 100.0 |
| 1971 | 8.7 | 7.2 | 20.1 | 63.0 | 100.0 |
| 1972 | 8.5 | 7.3 | 19.2 | 64.0 | 100.0 |
| 1973 | 9.2 | 7.9 | 18.4 | 63.5 | 100.0 |
| <u>Annual Growth Rate in Per Cent</u> | | | | | |
| 1973/ 1969 | 18.1 | 15.3 | 10.2 | 13.6 | 13.3 |
| 1973/ 1972 | 35.6 | 36.0 | 19.6 | 23.9 | 24.9 |

Source: Statistics Canada

Note: * Special transactions not shown separately.

Provincial Foreign Trade

The relative significance of the trade sector in the overall economy varies from province to province. It should be pointed out that export figures are based on province of lading and largely reflect provincial production for the export sector. However, some distortions exist. For example, in the case of grain exports, a non-producing province may be recorded as the export source because of storage arrangements. Since import data are collected at point of entry, interprovincial comparisons are invalid. Table 8 shows the provincial share of the export market.

PROVINCIAL SHARE OF TOTAL EXPORT MARKET

Table 8

| | <u>Per Cent of Total Canada*</u> | | |
|----------------------|----------------------------------|------|------|
| | 1971 | 1972 | 1973 |
| Atlantic Region | 5.0 | 5.2 | 5.2 |
| Newfoundland | 1.2 | 1.0 | 1.1 |
| Nova Scotia | 1.5 | 1.7 | 1.7 |
| Prince Edward Island | 0.1 | 0.1 | 0.1 |
| New Brunswick | 2.2 | 2.4 | 2.4 |
| Quebec | 23.7 | 21.5 | 20.2 |
| Ontario | 44.6 | 45.2 | 43.2 |
| Prairies | 10.3 | 10.8 | 11.9 |
| Manitoba | 1.8 | 1.8 | 1.8 |
| Saskatchewan | 1.8 | 1.8 | 2.0 |
| Alberta | 6.7 | 7.2 | 8.1 |
| British Columbia | 16.2 | 17.4 | 19.6 |

Source: Statistics Canada

Note: * Figures may not add to 100 per cent due to rounding.

In 1973, Ontario and Quebec provided the major portion of Canadian exports. Ontario accounted for about 43 per cent of the total and Quebec maintained about 20 per cent of the export market. These proportions are down somewhat from their 1971 levels.

The share declines in Ontario and Quebec, however, did not correspond to evenly distributed gains across the rest of the nation. The Atlantic region's 1973 share of total Canadian exports represented virtually no change from 1971. The Prairie's 1973 export share of almost 12 per cent did represent an increase, but the gains were almost entirely registered in Alberta which expanded total export share from 6.7 per cent to 8.1 per cent in the 1971-73 period. The most substantial gains were made by British Columbia which expanded its proportion of total Canadian exports from 16.2 per cent to 19.6 per cent over the three-year span. These trends largely reflect the growing importance of natural resources in the total export mix.

II. INTERNATIONAL TRENDS

The significance of trade to the Canadian economy makes it especially important for Canada to monitor international developments. A number of adjustments which have recently changed the international environment, deserve close attention. This section isolates several key developments which bear directly on Canada's international trade position.

Exchange Rates

One of the most significant developments has been the adoption of floating exchange rates in place of the machinery established by the Bretton Woods Agreement which was based on a pegged-rate system. Consequently, there has been a substantial realignment of foreign exchange rates over the last five years. Table 9 details these adjustments for the major world currencies vis-a-vis the Canadian dollar.

EXCHANGE RATES IN CANADIAN DOLLARS (Average
Quarterly Spot Rates - Second Quarter)

Table 9

| | United States | United Kingdom | Japan | Germany | France | Switzerland |
|-----------------|---------------|----------------|---------|---------|--------|-------------|
| | \$ | pound | yen | mark | franc | franc |
| 1970 | 1.0613 | 2.5501 | .002960 | .2919 | .1921 | .2463 |
| 1971 | 1.0125 | 2.4489 | .002844 | .2825 | .1833 | .2429 |
| 1972 | 0.9921 | 2.5679 | .003196 | .3110 | .1967 | .2571 |
| 1973 | 0.9998 | 2.5303 | .003778 | .3663 | .2260 | .3172 |
| 1974 | 0.9653 | 2.3153 | .003451 | .3860 | .1980 | .3197 |
| Per Cent Change | | | | | | |
| 1974/ 1970 | -9.05 | -9.21 | 16.59 | 32.24 | 3.07 | 29.80 |
| 1974/ 1973 | -3.45 | -8.50 | -8.66 | 5.37 | -12.39 | 0.79 |

Source: Bank of Canada Review

The impact of exchange adjustments on export and import volume depends on more complex comparisons of international inflation rates, capital movements, income and, ultimately, the price and income elasticities of foreign trade. Furthermore, given the inherent lags in economic adjustments and continuing uncertainty in world financial conditions, the impact and extent of these realignments cannot be completely known.

However, some observations with respect to longer run implications can be made at this stage. With a 3.5 per cent increase over the last year, the Canadian dollar has appreciated by 9.1 per cent in relation to its U.S. counterpart, although in recent months it has declined somewhat. The initial and direct effects of this appreciation are to discourage exports and encourage imports with the U.S.

The data suggest that the rapid increase in Canadian exports to Japan has been encouraged by substantial appreciation of the yen. In the 1970-74 period, the yen increased in value by 16.6 per cent relative to the Canadian dollar. However, this trend was sharply revised over the last year. From the second quarter of 1973 to the second quarter of 1974, the value of the yen dropped 8.7 per cent reflecting a deterioration in the Japanese balance of payments resulting from inflated oil prices. The deutsch-mark has experienced the greatest appreciation vis-a-vis the dollar, but the limited nature of Canadian-German trade constrains encouragement of the export sector. The substantial depreciation of the pound over the last year, 8.5 per cent, has undoubtedly contributed to reduced British significance as a market for Canadian exports.

The realignment of exchange rates is also of consequence to the aggregate commodity trends detailed in Section I. It is generally accepted that demand for crude and semi-processed materials is less sensitive to price changes than demand for end products. Since short run supply of the former is also rigid, prices vary considerably. Current high demand for Canadian resources, therefore, has been partly responsible for the rise in the exchange rate, which, in turn, has weakened exports of end products. The commodity trends, outlined in Table 4, reveal a shift in the Canadian export mix towards higher proportions of crude materials. While it is impossible to determine the exact effects of currency realignments, the implication is a continuation of the shift in the export mix towards higher proportions of crude and unprocessed materials.

U.S. Market

The significance of the U.S. market to Canadian trade and the general interdependence of the two economies was emphasized in Section I. This has both short and longer run implications. In the long run, the major issue is the degree of interdependence between the two economies and the implications for trade in both end products and natural resources.

In the short run, the most "optimistic" forecasts for U.S. economic conditions still imply weakness in the demand for Canadian exports. Of particular concern is the auto industry, the dominant sector of end product exports. Table 10 shows the recently forecast demand for new cars in the United States. Auto sales are expected to remain soft through 1975, registering little or no expansion from the depressed 1974 levels.

U.S. TOTAL SALES OF NEW CARS
NUMBER OF UNITS SEASONALLY ADJUSTED
ANNUAL RATE (Millions of Units)

Table 10

| | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter | Annual |
|------------------------|------------------|------------------|-------------------|------------------|------------------|
| 1971 | 10.0 | 9.8 | 10.7 | 10.5 | 10.4 |
| 1972 | 10.3 | 10.7 | 11.4 | 11.3 | 10.9 |
| 1973 | 12.5 | 12.2 | 11.7 | 9.8 | 11.6 |
| 1974 | 9.2 | 9.3 | 10.1 ^f | 9.5 ^f | 9.5 ^f |
| 1975 | 9.4 ^f | 9.5 ^f | 9.6 ^f | 9.8 ^f | 9.6 ^f |
| <u>Per Cent Change</u> | | | | | |
| 1974/ 1973 | -26.4 | -23.8 | -13.7 | -3.1 | +18.1 |
| 1975/ 1974 | 2.2 | 2.2 | -5.0 | 3.2 | 1.0 |

Source: Survey of Current Business

Note: f = forecast

Forecast: Security Pacific National Bank, California

U.S. auto demand has slackened significantly from the record 1973 levels. Partially reflecting concerns over the energy shortage, unit sales fell 26.4 per cent and 23.8 per cent from the first and second quarters of 1973 to the first two quarters of 1974. On an annual basis, sales are projected to drop by 18.1 per cent in the 1973-74 period. The current rush of new orders, supporting a third quarter 1974 projection of 10.1 million annualized units, is interpreted as a consumer response to 1975 model price hikes rather than a signal of recovering long run demand.

It is difficult to assess the precise economic impact of the U.S. economic outlook on future Canadian exports. However, the sheer size of the U.S. share in the total Canadian export market implies a degree of weakness in total foreign demand. Of particular concern, especially to the Province of Ontario, is the forecasted slow recovery in the auto sector.

International Trading Arrangements

A more general area of Canadian concern centres on the overall soundness of world trading arrangements. It is well known that world wide inflation, especially the rapid escalation of crude oil prices, has exerted severe strain on the international monetary and trading system. The vast shifts of wealth to major oil exporting nations will continue to rise rapidly into the hundreds of billions of dollars over the next few years. These payments for oil have already induced balance of payments deficits for many major trading countries, leading to financing problems. To date these problems have been handled with relative success.

However, the form and timing of Middle East capital investment and foreign aid programs are important unknowns in the long term trading picture. Given the size of the trade sector, a collapse in international liquidity or a rise of widespread protectionist sentiment would have a severe impact on both national and provincial economic development.

III. CANADIAN TARIFF STRUCTURE

Tariffs

Responding to international adjustments and the expansion of world trade, the major trading nations will soon be entering multilateral tariff and trade negotiations. The importance and impact of the trade sector on Canadian economic development makes these negotiations of particular national concern. It is expected that the provincial governments will make major contributions to the Canadian position on GATT and other commercial policy negotiations. This section provides a brief overview of the Canadian tariff structure and major non-tariff barriers together with a status report on the GATT negotiations.

Of almost \$24 billion worth of Canadian imports in 1973, about \$9.5 billion or 40 per cent are subject to duties. The major highlights of the Canadian tariff structure are:

- . the wide range and high value of imports which are not subject to tariffs;
- . the fact that when tariffs are applied they tend to be relatively high; and
- . like those of other major trading nations, high tariffs tend to be concentrated on semi-fabricated and manufactured products.

A striking feature of the Canadian tariff structure is the number of imports which are not subject to duties.¹

In 1970, over 50 per cent of the value of industrial imports entered Canada duty free. Comparative figures apply to the EEC and Japan while the United States was significantly lower. Relative to our major trading partners, Canada has a large proportion of non-dutiable trade in such categories as chemicals, machinery and transport equipment. While Canada has a reasonably high value of imports where no tariffs apply, Table 11 also shows that Canada levies high duties (in excess of 15 per cent) to a significant proportion of its imports.

| IMPORTS* BY TARIFF LEVEL (per cent of value) | | | | | Table 11 |
|---|------|----------|-----------|------------|------------------|
| Countries | Zero | 0.1 - 5% | 5.1 - 10% | 10.1 - 15% | More than 15% |
| Canada | 54 | 2 | 16 | 11 | 16 |
| U.S. | 28 | 36 | 21 | 5 | 10 |
| Japan | 47 | 8 | 17 | 24 | 5 |
| E.E.C. | 51 | 13 | 25 | 8 | 3 |
| U.K. | 47 | 5 | 28 | 13 | 8 |

Source: GATT, Basic Documentation for Tariff Study, Geneva, July 1970

Note: * Refers to Most Favoured Nation (MFN) Industrial Imports only.

1. The figures in Tables 11 and 12 indicate general orders of magnitude and do not reflect rebates and other exceptions.

The next table compares average tariffs by degree of processing. It should be noted that average tariff levels can be compared on the basis of dutiable plus duty free imports or only dutiable imports. Since Canada has a large proportion of duty free imports, the latter method tends to exaggerate the level of Canadian tariff protection. Table 12 examines these average tariffs levels by stage of fabrication both on a dutiable and duty free basis. It illustrates that Canadian tariff averages on 'all items' are close to international levels, whereas the Canadian averages on 'dutiable items' are substantially higher.

It is clear from Table 12 that most countries discriminate against goods in which a greater degree of processing is involved. The world industrial average escalates from 2.1 per cent on raw materials to 6.6 per cent on semi-finished manufactures and 8.6 per cent on finished manufactures. For the U.S., however, when dutiable items only are involved, the average tariff on manufactured goods is less than that on semi-finished manufactures.

AVERAGE TARIFF LEVEL BY DEGREE OF PROCESSING*

Table 12

| Country | All Items (%) | Dutiable Items (%) |
|-----------------------------------|------------------|-----------------------|
| <u>Raw Materials</u> | | |
| Canada | 0.3 | 1.2 |
| U.S. | 3.3 | 4.5 |
| Japan | 5.2 | 8.4 |
| E.E.C. | 0.4 | 1.4 |
| World | 2.1 | 3.7 |
| <u>Semi-Finished Manufactures</u> | | |
| Canada | 7.4 | 11.4 |
| U.S. | 6.9 | 9.5 |
| Japan | 8.2 | 9.9 |
| E.E.C. | 6.3 | 8.1 |
| World | 6.6 | 8.9 |
| <u>Finished Manufactures</u> | | |
| Canada | 9.9 | 14.7 |
| U.S. | 7.2 | 8.1 |
| Japan | 12.5 | 12.8 |
| E.E.C. | 8.6 | 9.0 |
| World | 8.6 | 10.3 |

Source: GATT, Basic Documentation for the Tariff Study, Geneva, July, 1970

Note: * Tariff averages are computed as follows: each duty rate is weighted by the country's MFN imports at the corresponding tariff line, and averages are computed for each Brussels Tariff Nomenclature heading. Then, each of these averages is weighted by total imports of 15 industrial countries for that heading and overall averages are taken.

On raw materials under both 'dutiable only' and 'all items', Canada's average tariff is the lowest and significantly below the world average. Japan has the highest average tariff on raw materials followed by the United States. Canada has the highest average tariff on semi-finished and finished manufactured items on a 'dutiable only' basis. On an 'all items' basis, Japan leads with Canada second. Both comparisons indicate that the Canadian tariff structure is relatively protective at the fabricating and secondary manufacturing levels. The low average tariff countries are the EEC, on semi-finished manufactures, and the U.S. on finished manufactures.

Non-Tariff Barriers

Canadian non-tariff barriers are generally not as widespread as similar policies in other countries. However, recent trends indicate that Canadian non-tariff protection is becoming more prevalent.¹

The most significant non-tariff developments have been in the area of quantitative restrictions. Beginning with negotiations with Japan in 1960, Canada has sought and achieved voluntary export restraint agreements with increasing frequency. This kind of protection has grown rapidly since 1966, as the number of countries which voluntarily restrict exports to Canada has more than tripled.

1. This sub-section derives from a report previously published by the Ministry of Industry and Tourism, Canada and Non-Tariff Barriers: A Summary (Toronto: Ministry of Industry and Tourism, 1973).

Import quotas are also emerging as significant policy tools. With the 1971 Textile and Clothing Board Act, Canada introduced a mechanism for implementing non-agricultural quantitative restrictions. This marked a major adjustment in Canadian posture from its former position as one of the few developed nations without such legislative machinery. The recent import quota on U.S. beef underlines the use of non-tariff protection as a stabilization device for the agricultural sector. The complete prohibition in imports of used aircraft and automobiles remains Canada's most stringent quantitative restriction.

Government procurement policy provides a second important area of non-tariff protection. Generally, domestic suppliers may be afforded price preference over non-domestic producers. This policy has been employed in Canada and is similar to the practices of other developed nations. The United States, for instance, allows a general six per cent preference, but will pay up to 12 per cent more for domestically produced goods from small business or enterprises located in "depressed areas".

There are a number of less clearly defined arrangements which constitute significant non-tariff distortions of trade. Government support of credit arrangements provides an increasingly important method of supporting and encouraging export industries. Programs designed to improve the structure of the economy and stimulate depressed regions can form indirect subsidies for import

competing industries. The recent Canadian-U.S. debate on DES hormones in beef brought forward the significance of national health and safety standards as possible barriers to trade. Safety and environmental standards on automobiles in the United States also provide significant short term protective barriers against imports competing with U.S. automobile manufacturers. International differences in tariff classification and custom valuation procedures are widespread and tend to create further "red tape" barriers which complicate tariff and trade negotiations.

Status of the GATT Negotiations

The General Agreement on Tariffs and Trade has been moderately effective in liberalizing trade practices in the post-war world. There have been six rounds of trade negotiations since GATT's inception. These conferences have reduced the average tariff rates on a high proportion of the total trade of GATT countries. The Kennedy Round negotiations, concluded in 1967, reduced the level of world tariffs by about one-third. Less progress has been made with respect to non-tariff barriers and agricultural trade. However, the GATT rules on non-tariff barriers have been tightened simultaneously with increasing governmental use of indirect barriers to trade.

The latest action in the trade field was a ministerial conference in September 1973 attended by representatives of over 100 countries to open the seventh round of multilateral trade

negotiations under the auspices of GATT. This action was the outcome of a commitment by the United States, Japan and the EEC under the Smithsonian Agreement of December 1971. The aim was to enter into multilateral trade negotiations as part of a package, including the reform of the international monetary system and exchange rate realignments, designed to reverse the escalating U.S. balance of payments deficit.

These negotiations have been effectively held in limbo pending the passage in the U.S. Congress of the Trade Reform Act. When the Bill is signed by the President, it is expected that serious negotiations will get underway and may continue over a period of several years.

Several major issues on the agenda to be considered at these trade negotiations are:

- . tariff cuts;
- . reductions in non-tariff barriers;
- . elimination of all barriers to trade in selected sectors;
- . liberalization of barriers to agricultural trade;
- . special concessions for products from developing countries;
and
- . review of GATT provisions, especially Article XIX concerning the multilateral safeguard system (rules whereby a country may re-introduce tariffs or non-tariff barriers where imports cause unforeseen market disruptions or unemployment).

In addition, it is probable that changes in the international economic environment in the last year will have some repercussions on the negotiations. The question has been raised as to whether international trade negotiations should take place in a period of escalating inflation, scarcity of supply, slower economic growth, protectionist pressures and balance of payments disequilibria. However, it has also been argued that these conditions enhance the desirability of an international forum in which countries can discuss their problems and coordinate their policies.

International negotiations until the present time focused almost entirely on access to markets. However, the oil crisis, potential cartels by raw material suppliers and the use of export restraints on foodstuffs by the United States and Canada will likely result in discussions in GATT on the establishment of new international rules and procedures to assure reasonable access to essential supplies. This will represent a major modification to the scope of the GATT negotiations and could provide Canada with an opportunity to press for better treatment in the major world markets for products processed from natural resources.

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